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Window of Ignorance

By PAUL KRUGMAN

The latest budget news is worse than even the most dour pessimists had thought possible. But the unfolding fiscal disaster hasn't yet penetrated the public's consciousness — and the administration is trying to exploit that window of ignorance.

In fiscal 2000 the federal budget was in surplus by \$236 billion. This year's deficit will be more than \$100 billion, possibly more than \$150 billion. Only the Treasury Department knows exactly how much money is coming in, but the renewed push to raise the debt limit, which will allow the government to borrow more money, suggests that the news is grim indeed. A year ago Treasury officials said they could stay within the current debt limit until 2008; in April they said they could make it into June; now they say they'll hit the wall in a couple of weeks.

And it's not a temporary shortfall. One insider told me to watch the plans for next week's auction of federal bonds: "If Treasury auctions five-year rather than one-year bonds, that could tip their hand that we have a chronic, long-term problem." Sure enough, most of the bonds auctioned next week will be five-year.

How did a huge surplus turn into a huge deficit? The recession, the tax cut and terrorism — in that order — all played a role. Also, it now seems clear that the big surplus in 2000, almost twice as large as the surplus in the previous year, was an aberration — that tax receipts were inflated by the technology bubble. In retrospect it's hard to believe that we locked in large, long-term tax cuts based on exactly one year in which the non-Social-Security budget was in significant surplus. (Thanks, Mr. Greenspan.)

But anyway, "Who lost the surplus?" is the wrong question. The right question is whether the Bush administration has any plan to return to a balanced budget, let alone to honor George W. Bush's promise to use the Social Security surplus to pay down debt. And the answer is no.

Won't a rebounding economy help? Yes, but not nearly enough. Even a dramatic recovery probably wouldn't be enough to put us in the black. Furthermore, although terror-related spending is only a minor factor in this year's budget (the war in Afghanistan cost only \$10 billion), the administration plans a huge defense buildup, which will swallow much of the gains from economic recovery.

Realistically, then, this budget deficit isn't going away on its own. It must be time for more tax cuts.

Actually, tax cuts will continue even without new legislation, because of the deliberately misleading way last year's bill was constructed. Most people got the bulk of their tax cuts in the first year; according to Citizens for Tax Justice, middle-income families can expect on average to see only about \$200 in future tax reductions. But that was just a political loss leader. The real beneficiaries of the tax cut are the seriously rich, for whom the best is yet to come: families in the top 1 percent of the income distribution will on average get another \$45,000 per year in tax breaks. And since the rich will get so much of the eventual total, that means that 60 percent of

the tax cut has yet to take effect.

Now that we're in fiscal trouble, you might think that it's time to reconsider tax cuts that haven't happened yet — especially when more than half of those future cuts will go to only 1 percent of the population. After all, the administration is cutting funds for many domestic programs, citing the war on terror as a justification. Isn't war supposed to be a time for shared sacrifice?

Oh, never mind. The administration and its allies in Congress failed to push through big tax cuts for corporations. But they still hope to lock in tax cuts for the rich, by eliminating the "sunset" provision in last year's tax bill — the same provision that was used to help hide the tax cut's true cost. Failing that, they'll try to permanently repeal the estate tax.

The alleged economic justification for these moves — which is, of course, that they will promote economic recovery — is so thin that I doubt anyone believes it. ("I was thinking of buying a new car, but I'm worried about my taxes in 2011.") What it's really about is exploiting a window of opportunity. Mr. Bush is still riding a wave of wartime popularity; the public still doesn't know how bad the budgetary situation is.

And if you think I'm being too cynical, you haven't been paying attention.

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